

CITY OF MARION

Marion, Iowa

INDEPENDENT AUDITOR'S REPORTS

BASIC FINANCIAL STATEMENTS AND

SUPPLEMENTARY INFORMATION

SCHEDULE OF FINDINGS

June 30, 2004

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CITY OF MARION

City Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John B. Nieland	Mayor	December 31, 2007
Walter Cram	Council Member-First Ward	December 31, 2007
Paul E. Rehn	Council Member-Second Ward	December 31, 2005
Kay A. Lammers	Council Member-Third Ward	December 31, 2007
Louis W. Stark	Council Member-Fourth Ward	December 31, 2005
Mary Lou Pazour	Council Member-At-Large	December 31, 2005
Nicholas A. Wagner	Council Member-At-Large	December 31, 2007
Jeffrey A. Schott	City Manager	Indefinite
Wesley A. Nelson	Finance Director/City Clerk	Indefinite
Donald C. Hoskins	City Attorney	Indefinite
Tom Trehame	Director of Planning and Development	Indefinite
Harry Daugherty	Chief of Police	Civil Service
Daniel Whitlow	City Engineer	Indefinite
Terry Jackson	Fire Chief	Civil Service
Susan Kling	Library Director	Indefinite
Richard Fox	Director of Parks and Recreation	Indefinite
Thomas Newbanks	Public Services Director	Indefinite
Robert A. Anderson	Marion Municipal Water Department - Trustee	November 1, 2008
Gregory O. Hapgood	Marion Municipal Water Department - Trustee 2003 Chairperson	November 1, 2004
Mary Ann McComas	Marion Municipal Water Department - Trustee 2004 Chairperson	November 1, 2006
David O. Kalkwarf	Marion Municipal Water Department - Administrator	Indefinite

CITY OF MARION

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Marion, Iowa:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marion, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City of Marion's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City at June 30, 2004, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principals generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2004 on our consideration of the City of Marion's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 8 through 15 and 39 through 41 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Marion's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1-5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Cedar Rapids, Iowa
September 2, 2004

Management's Discussion and Analysis

As management of the City of Marion, Iowa, we offer readers of the City of Marion's financial statements this narrative and analysis of the financial statements of the City of Marion for the fiscal year ended June 30, 2004. This section should be read in conjunction with the financial statements and the accompanying notes that follow. It should also be noted that the information contained here will provide information on both the governmental operations and the business activities of the City.

Financial Highlights

The assets of the City of Marion exceeded its liabilities at the close of June 30, 2004, by \$143.8 million (net assets). Of this amount, \$15.8 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's total assets increased by \$15.2 million.

At the end of the current fiscal year, unreserved fund balance for the general fund was \$8.0 million, or 78.3 percent of the total General Fund expenditures. For the purpose of these financial statements, the General Fund also includes the Equipment Replacement and the Tax Stabilization Funds.

Total general obligation debt increased by \$1.775 million. This was due to a new general obligation debt issue of \$3.1 million and subsequent retirements of \$1.325 million.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Marion's basic financial statements. The City of Marion's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The report consists of government-wide statements, fund financial statements, notes to the financial statements, combining schedules of non-major funds and supplementary information. The first several statements are highly condensed and present a government-wide view of the City's finances. The governmental activities of the City of Marion include general government, police and fire protection, streets and public buildings operation and maintenance, and parks and recreation activities. The major business-type activities include solid waste management collection and a sanitary sewer system. The City's only component unit, the Marion Municipal Water Department, is also included in the financial statements and notes.

Government-wide Financial Statements

The government-wide financial statements include the Statement of Net Assets. The Statement of Net Assets presents information on all of the City of Marion's assets and liabilities, with the difference between the two reported as Net Assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. For the first time, government activities reflect capital assets including infrastructure and long-term liabilities and business activities reflect capital assets and long-term liabilities.

The Statement of Activities is also included in the government-wide financial statements. The focus of the Statement of Activities is to show how the government's assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The government-wide statements include the Statement of Net Assets and the Statement of Activities and can be found on pages 17-20 of this report.

Statement of Net Assets for the Fiscal Years Ended June 30, 2004 and 2003

A condensed version of the Statement of Net Assets as of June 30, 2004 and 2003 follows:

	(in thousands)					
	Governmental Activities		Business-type Activities		Total Government	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Cash and investments	\$ 24,997	\$ 22,412	\$ 5,454	\$ 5,164	\$ 30,451	\$ 27,576
Other assets	11,650	10,984	483	541	12,133	11,525
Capital assets	<u>109,431</u>	<u>99,218</u>	<u>15,759</u>	<u>14,282</u>	<u>125,190</u>	<u>113,500</u>
Total assets	<u>\$146,078</u>	<u>\$132,614</u>	<u>\$ 21,696</u>	<u>\$ 19,987</u>	<u>\$167,774</u>	<u>\$152,601</u>
Other liabilities \$	11,449	\$ 1,192	\$ 142	\$ 202	\$ 11,591	\$ 1,394
Noncurrent liabilities	<u>12,336</u>	<u>10,467</u>	<u>53</u>	<u>83</u>	<u>12,389</u>	<u>10,550</u>
Total liabilities	<u>\$ 23,785</u>	<u>\$ 11,659</u>	<u>\$ 195</u>	<u>\$ 285</u>	<u>\$ 23,980</u>	<u>\$ 11,944</u>
Net assets:						
Invested in capital assets, net of debt	\$ 98,161	\$ 99,218	\$ 15,692	\$ 14,272	\$113,853	\$113,490
Restricted	10,901	8,764	3,201	2,748	14,102	11,512
Unrestricted	<u>13,231</u>	<u>12,973</u>	<u>2,607</u>	<u>2,682</u>	<u>15,838</u>	<u>15,655</u>
Total net assets	<u>\$122,293</u>	<u>\$120,955</u>	<u>\$ 21,500</u>	<u>\$ 19,702</u>	<u>\$143,793</u>	<u>\$140,657</u>

Governmental Activities

Net assets increased mainly due to improvements other than buildings increasing \$1.3 million for the fiscal year 2004. The majority of the increase was due to street construction.

Business-type Activities

Total assets increased by \$1.8 million for the fiscal year 2004 primarily due to equipment purchases and system improvements.

Statements of Activities for the Fiscal Years Ended June 30, 2004 and 2003

A summary version of the Statement of Activities follows:

	(in thousands)					
	Governmental Activities		Business-type Activities		Total Government	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenues:						
Charges for services	\$ 1,167	\$ 1,233	\$ 3,297	\$ 3,088	\$ 4,464	\$ 4,321
Operating grants and contributions	459	342	-	69	459	411
Capital grants and contributions	9,864	4,798	1,341	977	11,205	5,775
General revenues:						
Property taxes	10,241	9,929	-	-	10,241	9,929
Other taxes	870	1,346	-	-	870	1,346
Franchise fees	47	70	-	-	47	70
Road Use Taxes	2,203	2,123	-	-	2,203	2,123
State replacement tax	-	295	-	-	-	295
Investment income	658	693	127	146	785	839
Miscellaneous revenue	<u>20</u>	<u>22</u>	<u>84</u>	<u>82</u>	<u>104</u>	<u>104</u>
Total revenues	<u>25,529</u>	<u>20,851</u>	<u>4,849</u>	<u>4,362</u>	<u>30,378</u>	<u>25,213</u>
Expenses:						
Public safety	5,665	5,603	-	-	5,665	5,603
Public works	3,810	4,047	-	-	3,810	4,047
Culture and recreation	2,185	2,724	-	-	2,185	2,724
Community and economic development	1,092	1,253	-	-	1,092	1,253
General government	1,297	1,130	-	-	1,297	1,130
Interest on long-term debt	469	526	-	-	469	526
Sanitary sewer	-	-	1,876	1,876	1,876	1,876
Solid waste management	<u>-</u>	<u>-</u>	<u>986</u>	<u>874</u>	<u>986</u>	<u>874</u>
Total expenses	<u>14,518</u>	<u>15,283</u>	<u>2,862</u>	<u>2,750</u>	<u>17,380</u>	<u>18,033</u>
Transfers	<u>190</u>	<u>445</u>	<u>(190)</u>	<u>(445)</u>	<u>-</u>	<u>-</u>
Changes in net assets	11,201	6,013	1,797	1,167	12,998	7,180
Beginning net assets (1)	<u>111,093</u>	<u>114,942</u>	<u>19,702</u>	<u>18,535</u>	<u>130,795</u>	<u>133,477</u>
Ending net assets	<u>\$122,294</u>	<u>\$120,955</u>	<u>\$ 21,499</u>	<u>\$ 19,702</u>	<u>\$143,793</u>	<u>\$140,657</u>

(1) See footnote for prior period adjustment.

Governmental Activities

Charges for services make up 4.6 percent of governmental revenues. Operating and capital grants, primarily for street projects and building improvement projects, make up another 40.4 percent of governmental revenues. The remaining revenue comes from taxes, primarily property taxes, and interest revenue.

Business-type Activities

As expected, charges for services is the primary revenue source for business-type activities. Sanitary sewer fees and solid waste fees are the primary charges for services that make up 68.0 percent of total revenues. Investment income accounts for an additional 2.6 percent of total revenues.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objects. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers can better understand the long-term impact of the City's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Marion maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the General fund and the Capital Projects fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the report. The basic governmental financial statements can be found on pages 21-28 of this report.

Proprietary Funds

The City of Marion maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its storm water, solid waste and sanitary sewer operations. Internal service funds are an accounting device used to accumulate and allocate internally among the City's various functions. The City of Marion uses an internal service fund to account for its city provided health insurance. Because this service predominately benefits governmental rather than business-type functions, it has been included within the governmental activities in the governmental-wide financial statements.

Proprietary funds provide the same type of information as government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sanitary Sewer operations as this is considered a major fund of the City. Individual fund data for each of the non-major enterprise funds is provided in the form of combining statements elsewhere in this report. The Internal Service fund is shown in the proprietary fund financial statements. The basic proprietary financial statements can be found on pages 29-36 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the City of Marion's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements can be found on pages 37-38 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 42-59 of this report.

Budgetary Highlights - General Fund

The City had one budget amendment during the fiscal year, which is our common practice. The major increases in revenues and expenses were a result of a flood that occurred on June 4, 2003. The City incurred expenses due to clean-up and repairs and received disaster recover funds from Federal Emergency Management Agency (FEMA).

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2004, the City had invested \$109.4 million (net of depreciation) in capital assets as are reflected in the following table. These investments include land, buildings, improvements, machinery and equipment, roads, bridges and infrastructure.

	(in thousands -net of depreciation)					
	Governmental Activities		Business-type Activities		Total Government	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$ 48,589	\$ 43,743	\$ -	\$ -	\$ 48,589	\$ 43,743
Building and structures	8,602	8,397	-	-	8,602	8,397
Improvements other than buildings	71,727	64,205	-	-	71,727	64,205
Machinery and equipment	5,874	5,230	1,501	1,422	7,375	6,652
Distribution system	-	-	25,206	23,307	25,206	23,307
Construction in progress	2,787	2,770	208	298	2,995	3,068
Accumulated depreciation	<u>(28,178)</u>	<u>(25,127)</u>	<u>(11,212)</u>	<u>(10,745)</u>	<u>(39,390)</u>	<u>(35,872)</u>
Total	<u>\$109,401</u>	<u>\$ 99,218</u>	<u>\$ 15,703</u>	<u>\$ 14,282</u>	<u>\$125,104</u>	<u>\$113,500</u>

The following table reconciles the change in capital assets. The amount for governmental activities is \$10.2 million, which represents a 10.3 percent increase. For business-type activities, the amount is \$1.4 million, which is a 9 percent increase. Detail of this summary is presented on pages 52-54 of the notes.

	(in thousands)					
	Governmental Activities		Business-type Activities		Total Government	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Beginning balance	\$ 99,218	\$ 93,544	\$ 14,282	\$ 13,221	\$113,500	\$106,765
Additions	10,513	5,798	1,777	1,308	12,290	7,106
Retirements - net of depreciation	(32)	(34)	(45)	(74)	(77)	(108)
Depreciation	(3,085)	(2,860)	(519)	(471)	(3,604)	(3,331)
Construction in progress	<u>2,787</u>	<u>2,770</u>	<u>208</u>	<u>298</u>	<u>2,995</u>	<u>3,068</u>
Ending Balance	<u>\$109,401</u>	<u>\$ 99,218</u>	<u>\$ 15,703</u>	<u>\$ 14,282</u>	<u>\$125,104</u>	<u>\$113,500</u>

Governmental Activities

Major additions to capital assets consisted primarily of streets, storm sewers and equipment. Primary retirements were the replacement of four police cars that were scheduled to be replaced based on an on-going replacement schedule.

Business-type Activities

Sanitary sewer improvements amounted to just over a million dollars. Annually, the solid waste division replaces a garbage truck at a cost of around \$130,000 as a scheduled replacement.

Debt Administration

The amount of general obligation debt outstanding at fiscal year end was \$11.2 million as compared to \$9.5 million the prior fiscal year. This debt is backed by the full faith and credit of the City. Every other year, the City issues a general obligation bond issue to fund various street, sewer and other essential corporate purpose projects.

Moody's Investment Services has rated the City's general obligation bonds at Aa2 since December 2001. Prior to that date, the City's bonds were rated at Aa3, which was an upgrade from an A1 that was made in December 1999.

For more detailed information on the City's debt, please refer to pages 54-56 of the Notes to the Financial Statements.

Economic Factors

The unemployment rate for Linn County is currently at 4.7 percent, which is slightly higher than the previous year of 4.5 percent, but less than the National unemployment rate of 5.4 percent. Although this rate has risen, it is not necessarily a bad sign due to the fact the labor force was so tight previously it was sometimes difficult to find qualified workers.

Retail sales are also reported on a fiscal year, April 1 to March 31, basis. For fiscal year 2004 (April 1, 2003 to March 31, 2004), retail sales for Marion were \$259.1 million and \$2,832.7 million for Linn County. For fiscal year 2003, retail sales were \$252.2 million for Marion and \$2,751.3 million for Linn County.

The total value of building permits for fiscal year 2004 was approximately \$56.0 million, which is down from the fiscal year 2003 amount of \$77.4 million. Fiscal year 2004 was a very strong year, but in fiscal year 2003, there was the construction of a new school, two large industrial facilities, and several large multi-family residential projects.

Next Year's Budget and Rates

The City Council established the goal that the fiscal year 04-05 budget should not increase City property tax payments for the typical homeowner by more than 3 percent. The adopted budget achieves this goal with an increase of 0.5 percent and accomplishes all of the Council's long-standing objectives including maintaining the current level of services, maintaining adequate levels of cash reserves and complying with all of the City's financial policies.

The City does not anticipate any substantial increases in either sanitary sewer operation costs or solid waste operational costs, so no rate increase is proposed.

The total City tax levy rate for fiscal year 04-05 is 13.65103 per taxable valuation compared to 13.46667 for fiscal year 03-04. Net taxable valuation for fiscal year 04-05 is \$796.5 million, which was an increase of \$47.2 million from fiscal year 03-04 when it was \$749.3 million.

Financial Information Contact

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the Office of the Finance Director at 1100 8th Avenue, City Hall, Marion, Iowa 52302.

FINANCIAL STATEMENTS

CITY OF MARION

Statement of Net Assets

For the Year Ended June 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business Activities	Totals	Water
ASSETS				
Current assets:				
Cash and cash investments	\$ 24,997,441	\$ 5,453,952	\$ 30,451,393	\$ 1,711,812
Receivables:				
Property tax	10,825,577	-	10,825,577	-
Accounts	74,455	184,630	289,085	255,754
Unbilled revenue	-	289,396	289,396	438,898
Interest	42,802	8,500	51,302	-
Notes	33,780	-	33,780	-
Due from other governments	216,047	-	216,047	-
Inventories	70,365	-	70,365	58,550
Prepaid items	27,200	-	27,200	16,393
Restricted assets:				
Internal balances	<u>369,692</u>	<u>-</u>	<u>369,692</u>	<u>-</u>
Total current assets	<u>36,657,359</u>	<u>5,936,478</u>	<u>42,593,837</u>	<u>2,481,407</u>
Noncurrent assets:				
Notes receivable	30,007	55,998	86,005	-
Land	48,589,496	-	48,589,496	265,094
Buildings	8,601,518	-	8,601,518	-
Improvements other than buildings	71,726,718	-	71,726,718	-
Equipment	5,873,638	1,501,135	7,374,773	390,319
Distribution system	-	24,944,247	24,944,247	8,516,847
Storm water system	-	261,704	261,704	-
Accumulated depreciation	(28,177,737)	(11,212,116)	(39,389,853)	(1,847,014)
Construction in progress	<u>2,786,969</u>	<u>208,127</u>	<u>2,995,096</u>	<u>179,300</u>
Total noncurrent assets	<u>109,430,609</u>	<u>15,759,095</u>	<u>125,189,704</u>	<u>7,504,546</u>
TOTAL ASSETS	<u><u>\$ 146,087,968</u></u>	<u><u>\$ 21,695,573</u></u>	<u><u>\$ 167,783,541</u></u>	<u><u>\$ 9,985,953</u></u>

Exhibit A

	Primary Government			Component Unit
	Governmental Activities	Business Activities	Totals	Water
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 406,367	\$ 114,862	\$ 521,229	\$ 78,810
Accrued payroll	294,577	27,231	321,808	18,698
Interest payable	87,448	-	87,448	-
Other accrued expenses	-	-	-	3,886
Deferred revenue	10,660,635	-	10,660,635	-
Due to primary government	-	-	-	474,026
Total current liabilities	<u>11,449,027</u>	<u>142,093</u>	<u>11,591,120</u>	<u>575,420</u>
Noncurrent liabilities:				
Due within one year:				
General obligation bonds payable	1,380,000	-	1,380,000	-
Notes payable	-	34,341	34,341	-
Compensated absences	690,783	18,540	709,323	22,519
Due after one year:				
General obligation bonds payable	9,860,000	-	9,860,000	-
Notes payable	-	-	-	-
Compensated absences	<u>405,486</u>	<u>-</u>	<u>405,486</u>	<u>23,290</u>
Total noncurrent liabilities	<u>12,336,269</u>	<u>52,881</u>	<u>12,389,150</u>	<u>45,809</u>
Total liabilities	<u>23,785,296</u>	<u>194,974</u>	<u>23,980,270</u>	<u>621,229</u>
NET ASSETS				
Invested in capital assets, net of related debt	98,160,602	15,692,135	113,852,737	7,504,545
Restricted for:				
Future construction	10,900,802	3,201,187	14,101,989	150,000
Unrestricted	<u>13,241,268</u>	<u>2,607,277</u>	<u>15,848,545</u>	<u>1,710,179</u>
TOTAL NET ASSETS	<u>\$ 122,302,672</u>	<u>\$ 21,500,599</u>	<u>\$ 143,803,271</u>	<u>\$ 9,364,724</u>

These financial statements should be read only in connection with the accompanying notes to the financial statements.

CITY OF MARION

Statement of Activities

For the Year Ended June 30, 2004

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government				
Governmental Activities:				
Operating:				
Public Safety	\$ 5,665,227	\$ 203,491	\$ 121,794	\$ 84,537
Public Works	3,810,402	82,110	-	9,779,141
Culture and Recreation	2,184,899	287,991	199,089	-
Community and Economic Development	1,091,749	530,810	-	-
General Government	1,297,454	62,319	137,797	-
Interest	<u>469,431</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	<u>14,519,162</u>	<u>1,166,721</u>	<u>458,680</u>	<u>9,863,678</u>
Business Activities:				
Sewer	1,876,133	2,304,323	121	1,340,758
Solid Waste	<u>985,596</u>	<u>993,067</u>	<u>141</u>	<u>-</u>
Total Business Activities	<u>2,861,729</u>	<u>3,297,390</u>	<u>262</u>	<u>1,340,758</u>
Total Primary Government	<u>17,380,891</u>	<u>4,464,111</u>	<u>458,942</u>	<u>11,204,436</u>
Component Unit:				
Water	<u>4,736,408</u>	<u>5,100,010</u>	<u>-</u>	<u>553,584</u>
General Revenues:				
Property taxes				
TIF revenue				
Other city taxes				
Road use tax				
State replacement tax				
Franchise taxes				
Investment income				
Assessments				
Miscellaneous revenue				
Loss on sale of capital assets				
Transfers				
Change in net assets				
Net assets, beginning as restated				
Net assets, ending				

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component
Governmental Activities	Business Activities	Total	Unit Water
\$ (5,255,405)	\$ -	\$ (5,255,405)	\$ -
6,050,849	-	6,050,849	-
(1,697,819)	-	(1,697,819)	-
(560,939)	-	(560,939)	-
(1,097,338)	-	(1,097,338)	-
(469,431)	-	(469,431)	-
(3,030,083)	-	(3,030,083)	-
-	1,769,069	1,769,069	-
-	7,612	7,612	-
-	1,776,681	1,776,681	-
(3,030,083)	1,776,681	(1,253,402)	-
-	-	-	917,186
10,241,000	-	10,241,000	-
534,112	-	534,112	-
336,049	-	336,049	-
2,203,205	-	2,203,205	-
-	-	-	-
46,956	-	46,956	-
657,518	127,411	784,929	30,016
12,795	-	12,795	-
9,620	84,314	93,934	-
(2,406)	-	(2,406)	-
189,997	(189,997)	-	-
14,228,846	21,728	14,250,574	30,016
11,198,763	1,798,409	12,997,172	947,202
111,103,909	19,702,190	130,806,099	8,417,522
<u>\$122,302,672</u>	<u>\$ 21,500,599</u>	<u>\$143,803,271</u>	<u>\$ 9,364,724</u>

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

CITY OF MARION

Balance Sheet
Governmental Funds

June 30, 2004

	<u>General</u>	<u>Road Use</u>	<u>Employee Benefits</u>
Assets:			
Cash and investments	\$ 8,179,905	\$ 1,497,968	\$ 244,929
Receivables:			
Property tax	7,020,900	-	2,097,190
Accounts	60,534	-	-
Interest	13,712	-	-
Notes	-	-	-
Due from other governments	38,986	174,239	2,822
Inventories	<u>70,365</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 15,384,402</u>	<u>\$ 1,672,207</u>	<u>\$ 2,344,941</u>
Liabilities:			
Accounts payable	\$ 101,661	\$ 42,215	\$ 15,611
Accrued expenses	267,072	27,505	-
Deferred revenue	<u>6,913,805</u>	<u>-</u>	<u>2,065,201</u>
Total liabilities	<u>7,282,538</u>	<u>69,720</u>	<u>2,080,812</u>
Fund balances:			
Reserved for inventories	70,365	-	-
Unreserved	<u>8,031,499</u>	<u>1,602,487</u>	<u>264,129</u>
Total fund balances	<u>8,101,864</u>	<u>1,602,487</u>	<u>264,129</u>
Total liabilities and fund balances	<u>\$ 15,384,402</u>	<u>\$ 1,672,207</u>	<u>\$ 2,344,941</u>

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total</u>
\$ 47,119	\$ 11,120,719	\$ 3,906,801	\$ 24,997,441
1,707,487	-	-	10,825,577
-	-	13,921	74,455
-	21,511	7,579	42,802
-	-	63,787	63,787
-	-	-	216,047
-	-	-	70,365
<u>\$ 1,754,606</u>	<u>\$ 11,142,230</u>	<u>\$ 3,992,088</u>	<u>\$ 36,290,474</u>
\$ -	\$ 241,428	\$ 5,452	\$ 406,367
-	-	-	294,577
<u>1,681,629</u>	<u>-</u>	<u>-</u>	<u>10,660,635</u>
<u>1,681,629</u>	<u>241,428</u>	<u>5,452</u>	<u>11,361,579</u>
-	-	-	70,365
<u>72,977</u>	<u>10,900,802</u>	<u>3,986,636</u>	<u>24,858,530</u>
<u>72,977</u>	<u>10,900,802</u>	<u>3,986,636</u>	<u>24,928,895</u>
<u>\$ 1,754,606</u>	<u>\$ 11,142,230</u>	<u>\$ 3,992,088</u>	<u>\$ 36,290,474</u>

These financial statements should be read only in connection with the accompanying notes to the financial statements.

CITY OF MARION

**Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets**

June 30, 2004

Fund balances - total government funds		\$ 24,928,895
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used for governmental activities are not financial resources and, therefore, are not reported in funds		109,400,603
Internal service funds, net assets		369,692
Long-term liabilities, including bonds payable, are not due and payable in current period and, therefore, are not reported in the funds:		
Compensated absences	\$ (1,096,270)	
Bonds payable	(11,240,000)	
Accrued interest	(87,448)	
Bond issuance costs	<u>27,200</u>	<u>(12,396,518)</u>
Net assets - governmental activities		<u><u>\$ 122,302,672</u></u>

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

CITY OF MARION
Statement of Revenues, Expenditures and
Changes in Fund Balance
Governmental Funds

For the Year Ended June 30, 2004

	<u>General</u>	<u>Road Use</u>	<u>Employee Benefits</u>
Revenues:			
Property taxes	\$ 6,679,177	\$ -	\$ 2,004,600
Other taxes	336,049	-	-
Licenses and permits	545,391	-	-
Use of money and property	264,593	-	337
Intergovernmental	375,839	2,203,205	172,817
Charges for services	353,474	-	-
Fines and forfeitures	172,133	-	-
Special assessments	24	-	-
Miscellaneous	44,054	-	41,331
	<u>8,770,734</u>	<u>2,203,205</u>	<u>2,219,085</u>
Total revenues			
Expenditures:			
Operating:			
Public safety	5,499,269	-	126,499
Public works	742,437	1,429,259	-
Culture and recreation	2,201,082	-	29,631
Community and economic development	574,001	-	-
General government	1,245,788	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Bond issue costs	-	-	-
Capital outlay	-	347,777	-
	<u>10,262,577</u>	<u>1,777,036</u>	<u>156,130</u>
Total expenditures			
Excess (deficiency) of revenues over (under) expenditures	<u>(1,491,843)</u>	<u>426,169</u>	<u>2,062,955</u>
Other financing sources (uses):			
Transfers in (out):			
Operating transfers in	2,671,488	-	-
Operating transfers out	(672,081)	(376,044)	(2,304,926)
Sale of equipment	6,125	-	-
Bond proceeds	-	-	-
	<u>2,005,532</u>	<u>(376,044)</u>	<u>(2,304,926)</u>
Net other financing sources (uses)			

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total</u>
\$ 1,557,223	\$ -	\$ -	\$ 10,241,000
-	6,079	-	342,128
-	-	-	545,391
1,767	287,690	103,316	657,703
-	137,062	534,112	3,423,035
-	1,559	29,075	384,108
-	-	-	172,133
12,771	-	-	12,795
<u>-</u>	<u>44,525</u>	<u>4,931</u>	<u>134,841</u>
<u>1,571,761</u>	<u>476,915</u>	<u>671,434</u>	<u>15,913,134</u>
-	-	30,227	5,655,995
-	-	17,827	2,189,523
-	-	4,943	2,235,656
-	45,589	470,692	1,090,282
-	-	-	1,245,788
1,325,000	-	-	1,325,000
416,825	-	-	416,825
27,200	-	-	27,200
<u>-</u>	<u>1,359,562</u>	<u>410,726</u>	<u>2,118,065</u>
<u>1,769,025</u>	<u>1,405,151</u>	<u>934,415</u>	<u>16,304,334</u>
<u>(197,264)</u>	<u>(928,236)</u>	<u>(262,981)</u>	<u>(391,200)</u>
178,824	-	929,971	3,780,283
-	(22,235)	(215,000)	(3,590,286)
-	-	-	6,125
<u>-</u>	<u>3,086,698</u>	<u>-</u>	<u>3,086,698</u>
<u>178,824</u>	<u>3,064,463</u>	<u>714,971</u>	<u>3,282,820</u>

(continued)

CITY OF MARION
Statement of Revenues, Expenditures and
Changes in Fund Balance
Governmental Funds

For the Year Ended June 30, 2004

	<u>General</u>	<u>Road Use</u>	<u>Employee Benefits</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	513,689	50,125	(241,971)
Beginning Fund Balance	<u>7,588,175</u>	<u>1,552,362</u>	<u>506,100</u>
Ending Fund Balance	<u><u>\$ 8,101,864</u></u>	<u><u>\$ 1,602,487</u></u>	<u><u>\$ 264,129</u></u>

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total</u>
(18,440)	2,136,227	451,990	2,891,620
<u>91,417</u>	<u>8,764,575</u>	<u>3,534,646</u>	<u>22,037,275</u>
<u>\$ 72,977</u>	<u>\$ 10,900,802</u>	<u>\$ 3,986,636</u>	<u>\$ 24,928,895</u>

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

CITY OF MARION

**Reconciliation of Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
to the Statement of Activities**

For the Year Ended June 30, 2004

Net change in fund balances - total governmental funds \$ 2,891,620

Amounts reported for governmental activities in the statement of activities
are different because:

In the Statement of Activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from sale of capital assets increase financial resources. Thus, the change in fund balance differs by the cost of the capital asset sold (21,189)

Governmental funds reported capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital outlay	\$ 3,707,892	
Depreciation expense	<u>(3,084,964)</u>	622,928

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds 9,636,000

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal on long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, government funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:

Bond proceeds	(3,086,698)	
Repayment of bond principal	1,325,000	
Accrued interest	(52,606)	
Bond issuance costs	<u>27,200</u>	(1,787,104)

Expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and, therefore, are not reported in governmental funds (84,220)

Internal service funds net change (38,556)

Change in net assets - governmental activities \$ 11,198,763

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

CITY OF MARION
Statement of Net Assets
Proprietary Funds

June 30, 2004

	Business-type Activities- Enterprise Funds			
	Sewer Rental	Solid Waste	Other	Totals
Assets:				
Current assets:				
Cash and investments	\$ 943,638	\$ 1,375,128	\$ 3,135,186	\$ 5,453,952
Receivables:				
Accounts	119,980	64,650	-	184,630
Unbilled revenue	195,139	94,257	-	289,396
Interest	-	-	8,500	8,500
Total current assets	<u>1,258,757</u>	<u>1,534,035</u>	<u>3,143,686</u>	<u>5,936,478</u>
Noncurrent assets:				
Notes receivable	-	-	55,998	55,998
Equipment	458,492	787,086	255,557	1,501,135
Distribution system	24,944,247	-	-	24,944,247
Storm sewer system	-	-	261,704	261,704
Accumulated depreciation	(10,908,385)	(303,731)	-	(11,212,116)
Construction in progress	-	-	208,127	208,127
Total noncurrent assets	<u>14,494,354</u>	<u>483,355</u>	<u>781,386</u>	<u>15,759,095</u>
Total assets	<u><u>\$15,753,111</u></u>	<u><u>\$ 2,017,390</u></u>	<u><u>\$ 3,925,072</u></u>	<u><u>\$21,695,573</u></u>
Liabilities:				
Current liabilities:				
Accounts payable	\$ 81,565	\$ 23,837	\$ 9,460	\$ 114,862
Accrued payroll	<u>13,563</u>	<u>13,668</u>	<u>-</u>	<u>27,231</u>
Total current liabilities	<u>95,128</u>	<u>37,505</u>	<u>9,460</u>	<u>142,093</u>
Noncurrent liabilities:				
Due within one year:				
Compensated absences	18,540	-	-	18,540
Notes payable	34,341	-	-	34,341
Due after one year:				
Notes payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>52,881</u>	<u>-</u>	<u>-</u>	<u>52,881</u>
Total liabilities	<u>148,009</u>	<u>37,505</u>	<u>9,460</u>	<u>194,974</u>
Net Assets:				
Invested in capital assets, net of related debt	14,494,354	483,356	714,425	15,692,135
Restricted for:				
Future construction	-	-	3,201,187	3,201,187
Unrestricted	<u>1,110,748</u>	<u>1,496,529</u>	<u>-</u>	<u>2,607,277</u>
Total net assets	<u><u>\$15,605,102</u></u>	<u><u>\$ 1,979,885</u></u>	<u><u>\$ 3,915,612</u></u>	<u><u>\$21,500,599</u></u>

**Governmental
Activities-
Internal Service
Fund**

\$ 488,467

-

-

-

488,467

-

-

-

-

-

-

\$ 488,467

\$ 118,775

-

118,775

-

-

-

-

118,775

-

-

369,692

\$ 369,692

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

CITY OF MARION

**Statement of Revenues, Expenses and
Changes in Fund Net Assets
Proprietary Funds**

For the Year Ended June 30, 2004

	Business-type Activities- Enterprise Funds			
	Sewer Rental	Solid Waste	Other	Totals
Operating revenue:				
Charges for services	\$ 1,626,943	\$ 848,737	\$ 821,710	\$ 3,297,390
Miscellaneous revenues	<u>-</u>	<u>84,314</u>	<u>-</u>	<u>84,314</u>
Total operating revenue	<u>1,626,943</u>	<u>933,051</u>	<u>821,710</u>	<u>3,381,704</u>
Operating expense:				
Business type activities:				
Personal services	308,927	506,990	-	815,917
Services and commodities	994,801	380,411	149,636	1,524,848
Depreciation	<u>420,671</u>	<u>98,195</u>	<u>-</u>	<u>518,866</u>
Total operating expense	<u>1,724,399</u>	<u>985,596</u>	<u>149,636</u>	<u>2,859,631</u>
Operating income (loss)	<u>(97,456)</u>	<u>(52,545)</u>	<u>672,074</u>	<u>522,073</u>
Nonoperating revenue expense:				
Intergovernmental	-	-	-	-
Investment income	5,220	28,293	93,898	127,411
Special assessments	121	140	-	261
Interest expense	<u>(2,097)</u>	<u>-</u>	<u>-</u>	<u>(2,097)</u>
Total nonoperating revenue	<u>3,244</u>	<u>28,433</u>	<u>93,898</u>	<u>125,575</u>
Income (loss) before contributions and transfers	(94,212)	(24,112)	765,972	647,648
Capital contributions	1,340,758	-	-	1,340,758
Transfers in	10,035	-	-	10,035
Transfers out	<u>(147,105)</u>	<u>(42,892)</u>	<u>(10,035)</u>	<u>(200,032)</u>
Change in net assets	1,109,476	(67,004)	755,937	1,798,409
Beginning net assets, as restated	<u>14,495,626</u>	<u>2,046,889</u>	<u>3,159,675</u>	<u>19,702,190</u>
Ending net assets	<u><u>\$15,605,102</u></u>	<u><u>\$ 1,979,885</u></u>	<u><u>\$ 3,915,612</u></u>	<u><u>\$21,500,599</u></u>

**Governmental
Activities-
Internal Service
Fund**

\$ -
1,235,477
1,235,477

-
1,196,920
-
1,196,920
38,557

-
-
-
-
-

38,557
-
-
-
38,557
331,135
\$ 369,692

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

CITY OF MARION
Statement of Cash Flows
Proprietary Funds

June 30, 2004

	Business-type Activities- Enterprise Funds			
	Sewer Rental	Solid Waste	Other	Totals
Cash flows from operating activities:				
Cash received from users	\$ 1,626,740	\$ 924,057	\$ 821,710	\$ 3,372,507
Cash paid to employees	(302,060)	(507,258)	-	(809,318)
Cash paid to suppliers	(989,953)	(397,116)	(200,870)	(1,587,939)
Net cash from operating activities	<u>334,727</u>	<u>19,683</u>	<u>620,840</u>	<u>975,250</u>
Cash flows from non-capital financing activities:				
Intergovernmental	-	-	-	-
Special assessments	121	141	-	262
Operating transfers in (out)	(147,105)	(42,892)	-	(189,997)
Net cash flows from non-capital financing activities	<u>(146,984)</u>	<u>(42,751)</u>	<u>-</u>	<u>(189,735)</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	(286,690)	-	(314,138)	(600,828)
Principal paid	(33,311)	-	-	(33,311)
Interest paid	(2,097)	-	-	(2,097)
Net cash flows from capital and related financing activities	<u>(322,098)</u>	<u>-</u>	<u>(314,138)</u>	<u>(636,236)</u>
Cash flows from investing activities:				
Interest on investments	5,220	28,293	90,398	123,911
Payments received on notes receivable	-	-	14,933	14,933
Proceeds from government securities	-	-	1,971,479	1,971,479
Purchase of government securities	(1,794)	(4,947)	(1,747,980)	(1,754,721)
Net cash flows from investing activities	<u>3,426</u>	<u>23,346</u>	<u>328,830</u>	<u>355,602</u>
Net increase (decrease) in cash and cash equivalents	(130,929)	278	635,532	504,881
Cash and cash equivalents, June 30, 2003	<u>772,816</u>	<u>54,607</u>	<u>721,020</u>	<u>1,548,443</u>
Cash and cash equivalents, June 30, 2004	<u>\$ 641,887</u>	<u>\$ 54,885</u>	<u>\$ 1,356,552</u>	<u>\$ 2,053,324</u>

**Governmental
Activities-
Internal Service
Fund**

\$ 1,235,477
(1,160,539)

-

74,938

-

-

-

-

-

-

-

-

-

-

-

-

-

74,938

413,529

\$ 488,467

(continued)

CITY OF MARION
Statement of Cash Flows
Proprietary Funds

June 30, 2004

	Business-type Activities- Enterprise Funds			
	<u>Sewer Rental</u>	<u>Solid Waste</u>	<u>Other</u>	<u>Totals</u>
Reconciliation of operating income (loss) to net cash flows from operating activities:				
Operating income	\$ (97,456)	\$ (52,545)	\$ 672,074	\$ 522,073
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation expense	420,671	98,195	-	518,866
Change in assets and liabilities:				
Receivables	(202)	(8,994)	-	(9,196)
Due from other governments	-	-	-	-
Accounts payable	4,848	(16,705)	(51,234)	(63,091)
Accrued payroll	3,865	-	-	3,865
Accrued expenses	-	(268)	-	(268)
Accrued compensated absences	<u>3,001</u>	<u>-</u>	<u>-</u>	<u>3,001</u>
Net cash from operating activities	<u>\$ 334,727</u>	<u>\$ 19,683</u>	<u>\$ 620,840</u>	<u>\$ 975,250</u>
Schedule of noncash capital and related financing activities:				
Acquisition of assets through contributions	1,340,758	-	-	1,340,758

**Governmental
Activities-
Internal Service
Fund**

\$ 38,557

-

-

-

36,381

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-

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\$ 74,938

-

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

CITY OF MARION
Statement of Fiduciary Assets and Liabilities
Trust Funds

June 30, 2004

	<u>Cemetery Perpetual Care</u>	<u>Cemetery Memorial</u>	<u>Library Memorial</u>	<u>Total</u>
Assets:				
Cash and investments	\$ <u>120,776</u>	\$ <u>839</u>	\$ <u>6,144</u>	\$ <u>127,759</u>
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Net Assets:				
Held in trust	<u>120,776</u>	<u>839</u>	<u>6,144</u>	<u>127,759</u>
Total liabilities and net assets	<u>\$ 120,776</u>	<u>\$ 839</u>	<u>\$ 6,144</u>	<u>\$ 127,759</u>

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

CITY OF MARION
Statement of Changes in Fiduciary Net Assets
Trust Funds

June 30, 2004

	<u>Cemetery Perpetual Care</u>	<u>Cemetery Memorial</u>	<u>Library Memorial</u>	<u>Total</u>
Additions:				
Investment earnings:				
Interest	\$ -	\$ 64	\$ 57	\$ 121
Miscellaneous	<u>4,300</u>	<u>100</u>	<u>-</u>	<u>4,400</u>
Total additions	4,300	164	57	4,521
Deductions:				
Culture and recreation	<u>-</u>	<u>4,216</u>	<u>-</u>	<u>4,216</u>
Change in net assets	4,300	(4,052)	57	305
Net assets, beginning of year	<u>116,476</u>	<u>4,891</u>	<u>6,087</u>	<u>127,454</u>
Net assets, end of year	<u><u>\$ 120,776</u></u>	<u><u>\$ 839</u></u>	<u><u>\$ 6,144</u></u>	<u><u>\$ 127,759</u></u>

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

CITY OF MARION
General Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance-
Budget to Actual (Cash Basis)
For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$6,607,635	\$6,564,847	\$6,713,638	\$ 148,791
Other taxes	340,000	326,000	331,313	5,313
Licenses and permits	392,650	407,225	545,575	138,350
Use of money and property	226,800	251,250	271,944	20,694
Intergovernmental	449,579	412,323	371,652	(40,671)
Charges for services	305,875	328,139	353,530	25,391
Fines and forfeitures	186,500	179,000	172,502	(6,498)
Special assessments	200	100	24	(76)
Miscellaneous	<u>47,700</u>	<u>49,400</u>	<u>43,691</u>	<u>(5,709)</u>
Total receipts	<u>8,556,939</u>	<u>8,518,284</u>	<u>8,803,869</u>	<u>285,585</u>
Expenditures:				
Operating:				
Public safety	5,870,820	5,674,956	5,514,345	160,611
Public works	824,259	748,551	742,358	6,193
Culture and recreation	2,281,881	2,288,055	2,191,390	96,665
Community and economic development	601,192	584,211	572,711	11,500
General government	<u>1,300,804</u>	<u>1,324,709</u>	<u>1,232,200</u>	<u>92,509</u>
Total expenditures	<u>10,878,956</u>	<u>10,620,482</u>	<u>10,253,004</u>	<u>367,478</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,322,017)</u>	<u>(2,102,198)</u>	<u>(1,449,135)</u>	<u>653,063</u>
Other financing sources (uses):				
Sale of equipment	-	-	6,125	6,125
Operating transfer in	2,668,193	2,206,488	2,671,488	465,000
Operating transfer out	<u>(655,000)</u>	<u>(645,500)</u>	<u>(672,081)</u>	<u>(26,581)</u>
Net other financing sources (uses)	<u>2,013,193</u>	<u>1,560,988</u>	<u>2,005,532</u>	<u>444,544</u>
Net change in fund balances	(308,824)	(541,210)	556,397	1,097,607
Beginning fund balance	<u>6,473,942</u>	<u>6,519,467</u>	<u>7,712,099</u>	<u>-</u>
Ending fund balance	<u><u>\$6,165,118</u></u>	<u><u>\$5,978,257</u></u>	<u><u>\$8,268,496</u></u>	<u><u>\$1,097,607</u></u>

These financial statements should be read only in connection

CITY OF MARION
Road Use Tax Fund
Statement of Revenues, Expenditures and Changes in Fund Balance-
Budget to Actual (Cash Basis)
For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	<u>\$2,116,667</u>	<u>\$2,169,255</u>	<u>\$2,189,962</u>	<u>\$ 20,707</u>
Expenditures:				
Operating:				
Public works	<u>1,514,679</u>	<u>1,498,447</u>	<u>1,448,923</u>	<u>49,524</u>
Capital outlay	<u>423,300</u>	<u>640,939</u>	<u>404,840</u>	<u>236,099</u>
Total expenditures	<u>1,937,979</u>	<u>2,139,386</u>	<u>1,853,763</u>	<u>285,623</u>
Excess of revenues over expenditures	<u>178,688</u>	<u>29,869</u>	<u>336,199</u>	<u>306,330</u>
Other financing uses:				
Operating transfer out	<u>372,460</u>	<u>372,460</u>	<u>376,044</u>	<u>(3,584)</u>
Net change in fund balance	<u>(193,772)</u>	<u>(342,591)</u>	<u>(39,845)</u>	<u>302,746</u>
Beginning balance	<u>1,402,369</u>	<u>1,157,630</u>	<u>1,538,772</u>	<u>381,142</u>
Ending balance \$	<u>1,208,597\$</u>	<u>815,039</u>	<u>\$ 1,498,927\$</u>	<u>683,888</u>

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

CITY OF MARION
Employee Benefits Fund
Statement of Revenues, Expenditures and Changes in Fund Balance-
Budget to Actual (Cash Basis)
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget- Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenue:				
Property taxes	\$1,983,193	\$1,971,488	\$1,988,978	\$ 17,490
Other tax	-	-	-	-
Use of money and property	150	150	337	187
Intergovernmental	12,087	74,832	169,996	95,164
Miscellaneous	<u>25,500</u>	<u>30,747</u>	<u>45,928</u>	<u>15,181</u>
Total revenues	<u>2,020,930</u>	<u>2,077,217</u>	<u>2,205,239</u>	<u>128,022</u>
Expenditures:				
Operating:				
Public safety	3,500	21,000	117,462	(96,462)
Culture and recreation	<u>31,000</u>	<u>39,332</u>	<u>30,363</u>	<u>8,969</u>
Total expenditures	<u>34,500</u>	<u>60,332</u>	<u>147,825</u>	<u>(87,493)</u>
Excess of revenues over expenditures	1,986,430	2,016,885	2,057,414	40,529
Other financing sources:				
Operating transfer out	<u>1,983,193</u>	<u>2,304,926</u>	<u>2,304,926</u>	<u>-</u>
Net change in fund balance	3,237	(288,041)	(247,512)	40,529
Beginning fund balance	<u>270,004</u>	<u>461,475</u>	<u>492,441</u>	<u>30,966</u>
Ending fund balance	<u>\$ 273,241</u>	<u>\$ 173,434</u>	<u>\$ 244,929</u>	<u>\$ 71,495</u>

CITY OF MARION

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Marion is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1865 and operates under the Home Rule Provisions of the Constitution of Iowa. It operates under a Council-Manager form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general administrative services. It also provides sewer and sanitation services.

The financial statements of the City of Marion have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City of Marion has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Marion (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discretely Presented Component Unit

The Marion Municipal Water Department is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City, but is financially accountable to the City. Its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Water Department is governed by a three-member board appointed by the City Council and the Water Department's operating budget is subject to the approval of the City Council.

Jointly Governed Organizations

The City also participates in three jointly governed organizations for which the City is either not financially accountable or the nature and significance of the organizations' relationships with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following boards and commissions: Iowa League of Cities, Linn County

CITY OF MARION

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the City and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. Likewise, the City is reported separately from its component unit.

The Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction or improvements of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and are detailed in the supplemental information.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in

the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF MARION
Notes to Financial Statements
June 30, 2004

(1) Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Governmental fund financial statements are reported using the current financial resources measurement and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, local option sales taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Substantially all shared revenues are recorded when the underlying exchange transaction has occurred. For governmental funds, revenue from grant revenues is recorded as deferred revenue until they become available.

Revenue from federal awards is recognized when the City has done everything necessary to establish its right to revenue. For governmental funds, revenue from federal grants is recognized when they become both measurable and available. Expenditures of federal awards are recognized in the accounting period when the liability is incurred. Income from accounts receivable and unbilled usage is recognized when earned. Licenses and permits, fines and forfeits, fees and refunds, charges for service (other than enterprise), miscellaneous and other revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

Special assessment receivables are recorded at the time of their levy. The related revenue is recognized at the time it is due in the governmental funds and when levied for government-wide statements.

The City of Marion reports the following major governmental funds:

General Fund - The General Fund accounts for all the financial resources of the City, except for those required to be accounted for by other funds. The revenues of the General Fund are primarily derived from general property taxes, charges for services, fines and forfeitures, licenses and permits and certain revenues from state and federal sources. The expenditures of the General Fund primarily relate to general administration, police and fire protection, streets and public buildings operation and maintenance and parks and recreation oriented activities.

CITY OF MARION
Notes to Financial Statements
June 30, 2004

(1) Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Special Revenue Funds:

Road Use Tax Fund - The Road Use Tax Fund accounts for the maintenance of the City's infrastructure, such as streets, bridges and storm sewers. The revenues of the Road Use Tax Fund are primarily derived from state taxes. The expenditures of the Road Use Tax Fund primarily relate to the upkeep of the City's infrastructure.

Employee Benefits Fund - The Employee Benefits Fund accounts for the City's employee benefits. The revenues of the Employee Benefits Fund primarily come from property tax levies. The expenditures of the Employee Benefits Fund are for payment of the employee benefits in other funds.

Debt Service Fund - The Debt Service Fund accounts for the accumulation of resources for, and the payment of, long-term and special debt principal, interest and related costs.

Capital Projects Fund - The Capital Projects Fund accounts for the construction or replacement of City fixed assets, such as streets, bridges, storm sewers, fire stations and City Hall.

The City of Marion reports the following major proprietary funds:

Sewer Rental Fund - The Sewer Rental Fund accounts for the operation and maintenance of the City's sewer system.

Solid Waste Fund - The Solid Waste Fund accounts for the operation and maintenance of the City's sanitary water system.

Additionally, the City of Marion reports the following fund types:

Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost reimbursement basis.

Special revenue funds account for revenues derived from specific sources which are required to be accounted for as separate funds.

Fiduciary funds account for assets held by the City in an agency capacity for others and cannot be used to support the City's own programs. The City's fiduciary funds consists of:

Agency funds, which are custodial in nature, report on assets and liabilities and do not involve measurement of the results of operations.

CITY OF MARION
Notes to Financial Statements
June 30, 2004

(1) Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Other enterprise funds account for operations and activities that are financed and operated in a manner similar to a private business enterprise, and where the costs of providing goods or services to the general public on a continuing basis are expected to be financed or recovered primarily through user charges, or where the City has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The City has three funds classified as other enterprise funds and they are as follows: Sewer Rental Replacement, Solid Waste Replacement, and Storm Sewer Management.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected to follow subsequent private-sector guidance.

Transactions among City funds that would be treated as revenues and expenditures or expenses if they involved organizations external to City government are accounted for as revenues and expenditures or expenses in the funds involved.

Transactions which constitute reimbursements to a fund for expenditures initially made from it which are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

Transactions which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended are separately reported in the respective funds' operating statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of proprietary funds are user fees and charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

CITY OF MARION
Notes to Financial Statements
June 30, 2004

(1) Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the combined balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust, which is valued at amortized cost and non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the City Council to the County Board of Supervisors. Current year property tax receivable represent taxes collected by the County but not remitted to the City at June 30, 2004. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the City Council to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City Council is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 ½ percent per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors by the City Council in March 2003.

Interest and Penalty on Property Tax Receivable - Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

CITY OF MARION

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Inventories - Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories in the governmental fund financial statements are equally offset by a fund balance reserve which indicates that they are not available to liquidate current obligations.

Capital Assets - Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide statement of net assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of \$5,000.

Property and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimates Useful Lives (In Years)</u>
Buildings	40-50
Improvements other than buildings	5-50
Equipment	2-20

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

CITY OF MARION

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences - City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Road Use Tax and Sewer Rental Funds.

Long-term Liabilities - In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriation. The City first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

E. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units, internal service and agency funds and appropriates the amount deemed necessary for each of the different City offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

CITY OF MARION

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies (continued)

E. Budgets and Budgetary Accounting (continued)

Formal and legal budgetary control is based upon 8 major classes of expenditures known as functions, not by fund or fund type. These 8 functions are: public safety, public works, culture and recreation, community and economic development, general government, debt service, capital projects and business-type activities. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects fund and expendable trust funds.

Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. Legal budgetary control is also based upon the appropriation to each office or department.

The following is a comparison of expenditures to budget:

	<u>Actual</u>	<u>Amended Budget</u>	<u>Variance with Final-Budget Positive (Negative)</u>	<u>Actual % of Amended Budget</u>
Expenditures:				
Public safety	\$ 5,655,995	\$ 5,863,820	\$ 207,825	96%
Public works	2,189,523	2,389,438	199,915	92%
Culture and recreation	2,239,872	2,376,770	136,898	94%
Community and economic development	1,090,282	1,188,843	98,561	92%
General government	2,442,709	2,562,313	119,604	95%
Debt service	1,769,025	1,821,625	52,600	97%
Capital projects	2,118,065	4,708,950	2,590,885	45%
Business-type activities	<u>2,861,729</u>	<u>4,802,115</u>	<u>1,940,386</u>	<u>60%</u>
Total expenditures	<u>\$20,367,200</u>	<u>\$25,713,874</u>	<u>\$5,346,674</u>	<u>79%</u>

(2) Deposits and Investments

Deposits

The City's and its discretely presented component unit's deposits at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure that there will be no loss of public funds. At June 30, 2004, primary government deposits per City records totaled approximately \$15,313,529.

Investments

The City is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa;

CITY OF MARION

Notes to Financial Statements

June 30, 2004

(2) Deposits and Investments (continued)

prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments listed on the following page are category 1, which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name.

	<u>Carrying Amount</u>	<u>Market Value</u>
United States Government Treasury and Agencies' securities \$	12,640,284	\$ 12,710,506
Money market accounts at brokerage firms	<u>300,075</u>	<u>300,075</u>
	<u>\$ 12,940,359</u>	<u>\$ 13,010,581</u>

In addition at June 30, 2004, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,926,259 pursuant to Rule 2a-7 under the Investment Company Act of 1940. This investment is not subject to risk categorization.

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Road Use Tax	\$ 20,000
	Employee Benefits	1,971,488
	Police Retirement	<u>215,000</u>
	Total	<u>\$2,206,488</u>
Special Revenue:	Special Revenue:	
Road Use Tax Replacement	Road Use Tax	<u>\$ 195,000</u>
Special Revenue:	General	\$ 207,081
Employee Benefits	Special Revenue:	
	Road Use Tax	33,584
	Enterprise:	
	Sewer Rental	11,233
	Solid Waste	<u>27,400</u>
	Total	<u>\$ 279,298</u>

CITY OF MARION

Notes to Financial Statements

June 30, 2004

(3) Interfund Transfers (continued)

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Employee Benefits	Special Revenue: TIF	<u>\$ 333,438</u>
Debt Service	Special Revenue: Road Use Tax	\$ 77,460
	Enterprise: Sewer Rental	85,872
	Solid Waste	<u>15,492</u>
	Total	<u>\$ 178,824</u>
Capital Projects: Maintenance Bond	Special Revenue: Road Use Tax	\$ 50,000
	Capital Projects: Capital Projects	50,000
	Enterprise: Sewer Rental	<u>50,000</u>
	Total	<u>\$ 150,000</u>

(4) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 43,742,438	\$ 4,847,059	\$ -	\$ 48,589,497
Construction in progress	<u>2,770,116</u>	<u>2,786,969</u>	<u>(2,770,116)</u>	<u>2,786,969</u>
Total capital assets not being depreciated	<u>46,512,554</u>	<u>7,634,028</u>	<u>(2,770,116)</u>	<u>51,376,466</u>
Capital assets being depreciated:				
Buildings	8,396,684	204,834	-	8,601,518
Improvements other than buildings	64,205,262	7,521,456	-	71,726,718
Equipment	<u>5,230,209</u>	<u>709,876</u>	<u>(66,447)</u>	<u>5,873,638</u>
Total capital assets being depreciated	<u>77,832,155</u>	<u>8,436,166</u>	<u>(66,447)</u>	<u>86,201,874</u>

CITY OF MARION

Notes to Financial Statements

June 30, 2004

(4) Capital Assets (continued)

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Less accumulated depreciation for:				
Buildings	2,128,874	183,577	-	2,312,451
Improvements other than buildings	20,725,406	2,387,332	-	23,112,738
Equipment	<u>2,272,496</u>	<u>514,055</u>	<u>(34,003)</u>	<u>2,752,548</u>
Total accumulated depreciation	<u>25,126,776</u>	<u>3,084,964</u>	<u>(34,003)</u>	<u>28,177,737</u>
Total capital assets being depreciated, net	<u>52,705,379</u>	<u>5,351,202</u>	<u>(32,444)</u>	<u>58,024,137</u>
Governmental activities capital assets, net	<u>\$ 99,217,933</u>	<u>\$ 12,985,230</u>	<u>\$ (2,802,560)</u>	<u>\$109,400,603</u>

Depreciation expense was charged to functions of the primary government as follows:

Government activities:	
Public safety	\$ 258,059
Public works	2,219,522
Culture and recreation	578,673
General government	<u>28,710</u>
Total depreciation expense, governmental activities	<u>\$ 3,084,964</u>

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	<u>\$ 297,716</u>	<u>\$ 208,127</u>	<u>\$ (297,716)</u>	<u>\$ 208,127</u>
Capital assets being depreciated:				
Equipment	1,422,472	175,979	(97,316)	1,501,135
Distribution system	23,306,764	1,637,483	-	24,944,247
Storm sewer system	<u>-</u>	<u>261,704</u>	<u>-</u>	<u>261,704</u>
Total capital assets being depreciated	<u>24,729,236</u>	<u>2,075,166</u>	<u>(97,316)</u>	<u>26,707,086</u>

CITY OF MARION

Notes to Financial Statements

June 30, 2004

(4) Capital Assets (continued)

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Less accumulated depreciation for:				
Equipment	346,194	139,647	(51,930)	433,911
Distribution system	<u>10,398,986</u>	<u>379,219</u>	<u>-</u>	<u>10,778,205</u>
Total accumulated depreciation	<u>10,745,180</u>	<u>518,866</u>	<u>(51,930)</u>	<u>11,212,116</u>
Total capital assets being depreciated, net	<u>13,984,056</u>	<u>1,556,300</u>	<u>(45,386)</u>	<u>15,494,970</u>
Business-type activities capital assets, net	<u>\$ 14,281,772</u>	<u>\$ 1,764,427</u>	<u>\$ (343,102)</u>	<u>\$ 15,703,097</u>

Depreciation expense was charged to business-type activities as follows:

Business-type activities:	
Sewer	\$ 41,452
Solid waste	98,195
Systems	<u>379,219</u>
Total depreciation expense, business-type activities	<u>\$ 518,866</u>

(5) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	<u>General Obligation Bonds</u>	<u>Notes Payable</u>	<u>Compensated Absences</u>	<u>Total</u>
Beginning balance	\$ 9,465,000	\$ 67,652	\$ 1,017,113	\$ 10,549,765
Increases	3,100,000	-	738,222	3,838,222
Decreases	<u>1,325,000</u>	<u>33,311</u>	<u>640,526</u>	<u>1,998,837</u>
Ending balance \$	<u>11,240,000</u>	<u>\$ 34,341</u>	<u>\$ 1,114,809</u>	<u>\$ 12,389,150</u>
Due within one year	<u>\$ 1,997,835</u>	<u>\$ 34,341</u>	<u>\$ 709,323</u>	<u>\$ 2,741,499</u>

CITY OF MARION
Notes to Financial Statements
June 30, 2004

(5) Changes in Long-Term Liabilities (continued)

Bonds Payable

A summary of the City's June 30, 2004 general obligation bond indebtedness is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 1,380,000	\$ 509,434	\$ 1,889,434
2006	1,390,000	401,385	1,791,385
2007	1,130,000	341,675	1,471,675
2008	1,055,000	297,410	1,352,410
2009	1,100,000	255,597	1,355,597
2010	1,145,000	210,795	1,355,795
2011	1,005,000	163,515	1,168,515
2012	1,065,000	121,403	1,186,403
2013	610,000	75,980	685,980
2014	630,000	52,060	682,060
2015	360,000	26,650	386,650
2016	<u>370,000</u>	<u>13,690</u>	<u>383,690</u>
Total	<u>\$ 11,240,000</u>	<u>\$ 2,469,594</u>	<u>\$ 13,709,594</u>

Notes Payable

A summary of the City's June 30, 2004 notes payable is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	<u>\$ 34,341</u>	<u>\$ 1,068</u>	<u>\$ 35,409</u>

(6) Summary of Nonbonded Indebtedness

During the year ended June 30, 2001, the City entered into an agreement with a donor to pay an annuity of \$25,000 each year for as long as the donor lives in exchange for a gift of 180 acres of land to be used for park purposes. Using an estimated life span based on annuity tables and discounted at the City's estimated incremental borrowing rate of 4.1 percent, an estimated liability of \$242,808 was calculated. This annuity liability is revalued annually based upon changes in life expectancy and discount rates.

CITY OF MARION

Notes to Financial Statements

June 30, 2004

(6) Summary of Nonbonded Indebtedness (continued)

Since the development of this land for park purposes is not expected to be fully completed for many years, the agreement with the donors allows the City to lease this land or any part of it for farming purposes pending full development. The City has entered into a three-year agreement to lease 170 acres of cropland at \$100 per acre per year, subject to proportionate reduction as land is developed.

(7) Retirement System

The City offers City employees the following retirement plans:

Municipal Fire and Police Retirement System of Iowa

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by State statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 - 104th Street, Urbandale, Iowa 50322.

Plan members are required to contribute 9.35 percent of earnable compensation and the City's contribution rate may not be less than 17 percent of earnable compensation. Contribution requirements are established by State statute. The City's contributions to the Plan for the years ended June 30, 2004, 2003 and 2002 were \$612,232, \$487,462 and \$465,858, respectively, which met the required minimum contribution for each year.

Iowa Public Employees Retirement System

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70 percent of their annual salary and the City is required to contribute 5.75 percent of annual covered payroll. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$214,469, \$199,534 and \$186,208, respectively, equal to the required contributions for each year.

CITY OF MARION

Notes to Financial Statements

June 30, 2004

(8) Compensated Absences

City employees accumulate vacation hours for subsequent use or for payment upon termination, retirement or death. Employees covered under the International Association of Firefighters contract are also eligible for compensation at normal retirement of accumulated sick leave in excess of 90 days, to a maximum payment of 60 days. Employees covered under the Marion Policeman's Protective Association contract are eligible for compensation at normal retirement of 50 percent of their sick leave accumulated, to a maximum of 60 days. For employees covered under the AFSCME contract, Marion Municipal Water Department employees and all other non-union City employees, sick leave can be accumulated but is payable only when used. Retiring employees of the Marion Municipal Water Department who have accumulated 30 or more days of unused sick leave are entitled to one and one-half months of regular pay as severance pay. City employees may also accumulate compensatory hours for overtime worked to be used subsequently or paid out upon termination, retirement or death. The City's approximate maximum liability for earned compensated absences payable to employees, including related tax and fringe amounts, is as follows:

Sick leave	\$ 405,487
Vacation and personal leave	580,555
Compensatory time	<u>128,767</u>
Total	<u>\$ 1,114,809</u>

The above liabilities have been computed based on rates of pay as of June 30, 2004.

(9) Conduit Debt

The City has issued \$33,570,000 of industrial development revenue and health care facility revenue bonds under provisions of Chapter 419 of the Code of Iowa.

The amounts of these bonds which were still outstanding at June 30, 2004 is not reported to the City by either the debtors or creditors. Therefore, outstanding balances are unknown. The bonds and related interest are payable solely from revenue of applicable projects. Bond principal and interest do not constitute liabilities of the City.

(10) Employee Health Care Plan

The City self-funds for health insurance claims to a stop-loss insured amount of \$30,000 per participant and a 125 percent aggregate stop-loss amount based on the "pure premiums" amount multiplied by the number of single and family contracts covered during the contract year. The following is a summary of claims paid during the year and an estimate of the claims incurred but not reported at June 30, 2004:

Claims paid during the year	\$ 851,400
Estimated claims incurred but unpaid at June 30, 2004	343,245

CITY OF MARION

Notes to Financial Statements

June 30, 2004

(10) Employee Health Care Plan (continued)

The City has chosen to establish a risk financing fund for risks associated with the employees' health insurance plan. The risk financing is accounted for as an internal service fund where assets are set aside for claim settlements. The cost of these benefits is charged to each department and fund based upon the number of employees whose salary is charged to the department and fund and the type of plan (single or family) chosen by the employee. Amounts charged are \$265 per month single or \$662 per month family, which is an actuarially determined amount with a reasonable provision for future unexpected claims. The amount charged will be adjusted over a reasonable period of time so that the internal service fund receipts and disbursements are approximately equal.

(11) Related Party Transactions

The Marion Municipal Water Department bills and collects for sewer and garbage services provided for the City of Marion to its residents. During the year ended June 30, 2004, the Marion Municipal Water Department collected and remitted to the City \$2,193,597 for sewer and \$972,090 for garbage service. Fees paid to the Water Department by the City during the year to pay for this service totaled \$63,802.

(12) Local Government Risk Pool

The City is a member in the Iowa Municipal Workers' Compensation Association (IMWCA). IMWCA is a local government risk sharing pool established for the purpose of managing and funding workers' compensation claims against its members. During the year ended June 30, 2004, the City remitted \$74,471 to IMWCA for workers' compensation premiums.

(13) Notes Receivable

The City has established a revolving loan program using funds from the repayment of loans previously made to local businesses through grants received from the Iowa Department of Economic Development using Community Development Block Grant funds. These loans bear interest at 3 percent and have monthly payments maturing through December, 2008. The outstanding balances of these loans at June 30, 2004 totaled \$63,787.

During the year ended June 30, 1998, the City accepted a note receivable for reimbursement of costs to extend a sanitary sewer to a new housing development. The amount is being repaid over ten years with interest at 6.5 percent. The outstanding balance at June 30, 2004 was \$55,998.

CITY OF MARION

Notes to Financial Statements

June 30, 2004

(14) Primary Government

The City is involved in construction of capital assets, mainly streets and sanitary sewer lines. At June 30, 2004, the City was committed to approximately \$2,133,678 in construction contracts, capital asset purchases and other services. Subsequently, the City approved approximately \$333,109 in construction contracts, capital asset purchases and other services. In addition, the City has entered into 28E agreements with other area governments for road widening projects with an estimated cost to the City of approximately \$812,773.

As part of a grant application process, the City has committed local funding up to \$1,097,000 to develop an arts and entertainment center in a City park; however, private grants and donations exceeding \$1,287,114 have been received or pledged to a foundation for this purpose. The City also has the option to reject the grant if it decides it has not received enough private funding and does not wish to commit the necessary City funds to the project.

Litigation

At June 30, 2004, the City was involved in various claims and lawsuits against the City that are being defended primarily through its insurance carriers. Counsel has indicated that, although the results are uncertain, insurance coverage is adequate to cover any judgments, claims or awards against the City.

The City has one lawsuit against it that the insurance company will not cover. The City's legal counsel has stated that the case is weak against the City and a favorable outcome is expected. The amount is not material to the City's financial statements taken as a whole.

Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in the past three fiscal years.

Component Unit

The Water Department provides single premium health insurance coverage for a period not to exceed three continuous years for retirees with a minimum of 30 years of service.

(15) Prior Period Adjustment

The June 30, 2003 fund balance has been restated to correct an error in recording succeeding year property tax as revenue. Previously, the City recognized succeeding year property taxes as revenue on the Statement of Activities instead of recording them as deferred revenue on the Statement of Net Assets. The effect of the restatement was to decrease beginning Net Assets by \$9,861,491.

This information is an integral part of the accompanying financial statements.

CITY OF MARION

OTHER SUPPLEMENTARY INFORMATION

CITY OF MARION
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004

	Special Revenue			
	Road Use Replacement	Tax Increment Financing	Community Development Block Grant	Police Retirement
Assets:				
Cash and investments	\$ 714,347	\$ 393,296	\$ 120,765	\$ 1,015,980
Receivables:				
Accounts	-	13,921	-	-
Interest	1,081	-	-	2,373
Notes	-	-	63,787	-
Due from other governments	-	-	-	-
Total assets	<u>\$ 715,428</u>	<u>\$ 407,217</u>	<u>\$ 184,552</u>	<u>\$ 1,018,353</u>
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Fund balances:				
Unreserved	<u>715,428</u>	<u>407,217</u>	<u>184,552</u>	<u>1,018,353</u>
Total liabilities and fund balances	<u>\$ 715,428</u>	<u>\$ 407,217</u>	<u>\$ 184,552</u>	<u>\$ 1,018,353</u>

<u>Other Benefits</u>	<u>Sewer Assessment</u>	<u>Park Development</u>	<u>Maintenance Bond</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 1,429,878	\$ 51,904	\$ 29,298	\$ 151,333	\$ 3,906,801
-	-	-	-	13,921
4,125	-	-	-	7,579
-	-	-	-	63,787
-	-	-	-	-
<u>\$ 1,434,003</u>	<u>\$ 51,904</u>	<u>\$ 29,298</u>	<u>\$ 151,333</u>	<u>\$ 3,992,088</u>
\$ -	\$ -	\$ 5,452	\$ -	\$ 5,452
<u>1,434,003</u>	<u>51,904</u>	<u>23,846</u>	<u>151,333</u>	<u>3,986,636</u>
<u>\$ 1,434,003</u>	<u>\$ 51,904</u>	<u>\$ 29,298</u>	<u>\$ 151,333</u>	<u>\$ 3,992,088</u>

CITY OF MARION

**Statement of Revenues, Expenditures
and Changes in Fund Balance
Nonmajor Governmental Funds**

For the Year Ended June 30, 2004

			Special Revenue	
	Road Use Replacement	Tax Increment Financing	Community Development Block Grant	Police Retirement
Revenues:				
Use of money and property	\$ 14,640	\$ -	\$ 298	\$ 30,297
Intergovernmental	-	534,112	-	-
Charges for services	-	-	-	-
Special assessments	-	-	-	-
Miscellaneous	-	-	4,931	-
	<u>14,640</u>	<u>534,112</u>	<u>5,229</u>	<u>30,297</u>
Total revenue				
Expenditures:				
Operating:				
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Community and economic development	-	470,692	-	-
Debt service	-	-	-	-
Capital projects	212,100	-	-	-
	<u>212,100</u>	<u>470,692</u>	<u>-</u>	<u>-</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	<u>(197,460)</u>	<u>63,420</u>	<u>5,229</u>	<u>30,297</u>
Other financing sources (uses):				
Transfers in	195,000	333,438	-	-
Transfers out	-	-	-	(215,000)
	<u>195,000</u>	<u>343,797</u>	<u>-</u>	<u>(215,000)</u>
Net other financing sources (uses)				
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(2,460)</u>	<u>396,858</u>	<u>5,229</u>	<u>(184,703)</u>
Beginning fund balance	<u>717,888</u>	<u>10,359</u>	<u>179,323</u>	<u>1,203,056</u>
Ending fund balance	<u><u>\$ 715,428</u></u>	<u><u>\$ 407,217</u></u>	<u><u>\$ 184,552</u></u>	<u><u>\$ 1,018,353</u></u>

<u>Employee Benefits</u>	<u>Sewer Assessment</u>	<u>Park Development</u>	<u>Maintenance Bond</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 58,000	\$ -	\$ 58	\$ 23	\$ 103,316
-	-	-	-	534,112
-	-	-	29,075	29,075
-	-	-	-	-
-	-	-	-	4,931
<u>58,000</u>	<u>-</u>	<u>58</u>	<u>29,098</u>	<u>671,434</u>
30,227	-	-	-	30,227
17,827	-	-	-	17,827
4,943	-	-	-	4,943
-	-	-	-	470,692
-	-	-	-	-
-	-	198,626	-	410,726
<u>52,997</u>	<u>-</u>	<u>198,626</u>	<u>-</u>	<u>934,415</u>
<u>5,003</u>	<u>-</u>	<u>(198,568)</u>	<u>29,098</u>	<u>(262,981)</u>
279,298	-	-	122,235	929,971
-	-	-	-	(215,000)
<u>279,298</u>	<u>-</u>	<u>-</u>	<u>122,235</u>	<u>714,971</u>
284,301	-	(198,568)	151,333	451,990
<u>1,149,702</u>	<u>51,904</u>	<u>222,414</u>	<u>-</u>	<u>3,534,646</u>
<u>\$ 1,434,003</u>	<u>\$ 51,904</u>	<u>\$ 23,846</u>	<u>\$ 151,333</u>	<u>\$ 3,986,636</u>

CITY OF MARION

**Combining Statement of Net Assets
Nonmajor Enterprise Funds**

June 30, 2004

	Business-type Activities- Other Enterprise			
	Sewer Rent Replacement	Solid Waste Replacement	Storm Water Management	Total
Assets:				
Current assets:				
Cash and investments	\$ 1,377,072	\$ 532,502	\$ 1,225,612	\$ 3,135,186
Receivables:				
Accounts	-	-	-	-
Unbilled revenue	-	-	-	-
Interest	<u>3,000</u>	<u>2,000</u>	<u>3,500</u>	<u>8,500</u>
Total current assets	<u>1,380,072</u>	<u>534,502</u>	<u>1,229,112</u>	<u>3,143,686</u>
Noncurrent assets:				
Notes receivable	55,998	-	-	55,998
Equipment	-	255,557	-	255,557
Storm water system	-	-	261,704	261,704
Accumulated depreciation	-	-	-	-
Construction in progress	<u>10,963</u>	<u>-</u>	<u>197,164</u>	<u>208,127</u>
Total noncurrent assets	<u>66,961</u>	<u>255,557</u>	<u>458,868</u>	<u>781,386</u>
Total assets	<u><u>\$ 1,447,033</u></u>	<u><u>\$ 790,059</u></u>	<u><u>\$ 1,687,980</u></u>	<u><u>\$ 3,925,072</u></u>
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 9,460	\$ 9,460
Accrued payroll	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>-</u>	<u>-</u>	<u>9,460</u>	<u>9,460</u>
Net assets:				
Invested in capital assets, net of related debt	-	255,557	458,868	714,425
Restricted for:				
Future construction	1,447,033	534,502	1,219,652	3,201,187
Unrestricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><u>\$ 1,447,033</u></u>	<u><u>\$ 790,059</u></u>	<u><u>\$ 1,678,520</u></u>	<u><u>\$ 3,915,612</u></u>

CITY OF MARION

**Combining Statement of Revenues, Expenses
and Changes in Fund Net Assets
Nonmajor Enterprise Funds**

For the Year Ended June 30, 2004

	Business-type Activities- Other Enterprise			
	Sewer Rent Replacement	Solid Waste Replacement	Storm Water Management	Total
Operating revenue:				
Charges for services	\$ 291,200	\$ 144,329	\$ 386,181	\$ 821,710
Miscellaneous revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating revenue	<u>291,200</u>	<u>144,329</u>	<u>386,181</u>	<u>821,710</u>
Operating expense:				
Personal services	-	-	-	-
Services and commodities	142,891	-	6,745	149,636
Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expense	<u>142,891</u>	<u>-</u>	<u>6,745</u>	<u>149,636</u>
Operating income (loss)	<u>148,309</u>	<u>144,329</u>	<u>379,436</u>	<u>672,074</u>
Nonoperating revenue expense:				
Intergovernmental	-	-	-	-
Investment income	39,620	25,484	28,794	93,898
Special assessments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total nonoperating revenue	<u>39,620</u>	<u>25,484</u>	<u>28,794</u>	<u>93,898</u>
Income (loss) before contributions and transfers	187,929	169,813	408,230	765,972
Transfers out	<u>(10,035)</u>	<u>-</u>	<u>-</u>	<u>(10,035)</u>
Change in net assets	177,894	169,813	408,230	755,937
Beginning net assets	<u>1,269,139</u>	<u>620,246</u>	<u>1,270,290</u>	<u>3,159,675</u>
Ending net assets	<u><u>\$ 1,447,033</u></u>	<u><u>\$ 790,059</u></u>	<u><u>\$ 1,678,520</u></u>	<u><u>\$ 3,915,612</u></u>

CITY OF MARION

**Combining Statement of Cash Flows
Nonmajor Enterprise Funds**

June 30, 2004

	Business-type Activities- Other Enterprise			
	Sewer Rent Replacement	Solid Waste Replacement	Storm Water Management	Total
Cash flows from operating activities:				
Cash received from users	\$ 291,200	\$ 144,329	\$ 386,181	\$ 821,710
Cash paid to employees	-	-	-	-
Cash paid to suppliers	<u>(197,770)</u>	<u>-</u>	<u>(3,100)</u>	<u>(200,870)</u>
Net cash flows from operating activities	<u>93,430</u>	<u>144,329</u>	<u>383,081</u>	<u>620,840</u>
Cash flows from non-capital financing activities:				
Intergovernmental	-	-	-	-
Special assessments	-	-	-	-
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash flows from non-capital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	<u>(10,964)</u>	<u>(106,009)</u>	<u>(197,165)</u>	<u>(314,138)</u>
Cash flows from investing activities:				
Interest from investments	39,620	25,484	25,294	90,398
Payments received on notes receivable	14,933	-	-	14,933
Proceeds from government securities	-	-	1,971,479	1,971,479
Purchase of government securities	<u>-</u>	<u>-</u>	<u>(1,747,980)</u>	<u>(1,747,980)</u>
Net cash flows from Investing activities	<u>54,553</u>	<u>25,484</u>	<u>248,793</u>	<u>328,830</u>
Net increase (decrease) in cash and cash equivalents	137,019	63,804	434,709	635,532
Cash and cash equivalents, June 30, 2003	<u>626,553</u>	<u>66,699</u>	<u>27,768</u>	<u>721,020</u>
Cash and cash equivalents, June 30, 2004	<u><u>\$ 763,572</u></u>	<u><u>\$ 130,503</u></u>	<u><u>\$ 462,477</u></u>	<u><u>\$ 1,356,552</u></u>

	Business-type Activities- Other Enterprise			
	<u>Sewer Rent Replacement</u>	<u>Solid Waste Replacement</u>	<u>Storm Water Management</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash flows from operating activities:				
Operating income (loss)	\$ 148,309	\$ 144,329	\$ 379,436	\$ 672,074
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation expense	-	-	-	-
Change in assets and liabilities:				
Receivables	-	-	-	-
Due from other governments	-	-	-	-
Accounts payable	(54,879)	-	3,645	(51,234)
Accrued expenses	-	-	-	-
	<u>\$ 93,430</u>	<u>\$ 144,329</u>	<u>\$ 383,081</u>	<u>\$ 620,840</u>

**Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and Other
Matters Based on Audit of Financial Statement**

To the Honorable Mayor and
Members of the City Council
Marion, Iowa

We have audited the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Marion as of and for the year ended June 30, 2004 which collectively comprise City of Marion's basic financial statements and have issued our report thereon dated September 2, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Marion's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Marion's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as items I-A-04 and I-B-04.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Marion's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Marion during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Cedar Rapids, Iowa
September 2, 2004

CITY OF MARION

Schedule of Findings

Year Ended June 30, 2004

Part I: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-04 Segregation of duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that employees in the office can open mail, list out cash receipts and make bank deposits. Also, the individual responsible for maintaining cash records performs the monthly bank reconciliations. We also noted individuals can prepare and sign checks and also perform monthly bank reconciliations.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, we recommend that the City review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - The City will review their present internal control procedures and will consider additional review procedures where practical.

Conclusion - Response accepted. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

I-B-04 Capital Asset Records - We noted instances of input errors when posting new entries to the capital assets records from the source documents.

Recommendation - We recommend the City establish some type of input or output control to assure entries to capital asset records agree to supporting source documents.

Response - We will consider this in the future.

Conclusion - Response accepted.

Year Ended June 30, 2004

CITY OF MARION

Audit Staff

This audit was performed by:

William E. Murray, CPA, Audit Partner

Andrew J. Johnson, In-charge

Tim Wood, CPA

Jim Fitzpatrick, CPA